



TO: Local Government Officials, Staff, Community and Economic Development Agencies, Organizations and Others Interested in the Montana Community Development Block Grant (CDBG) Program

FROM: Gus Byrom, CDBG Program Manager – Housing and Public Facilities
Karyl Tobel, CDBG Program Manager – Economic Development

SUBJ: **1. Introduction and Background of the CDBG Program**

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DATE: January 2, 2007

1. Introduction and Background of the CDBG Program

Montana's CDBG program is a federally funded, competitive grant program designed to help communities of less than 50,000 population with their highest priority community development needs. All CDBG projects must principally benefit low and moderate income persons. The program was established by the federal Housing and Community Development Act of 1974 which was signed into law by President Gerald R. Ford. The Montana Department of Commerce (MDOC) administers the program under contract with the U.S. Department of Housing and Urban Development (HUD). In 1982, MDOC took over administration of the "Small Cities" CDBG program for communities of less

than 50,000 population from HUD. The MDOC Business Resources Division administers the Economic Development category. The MDOC Community Development Division administers the Housing and Public Facilities categories.

2. Federal Budget Update

Since MDOC began administering the State CDBG Program in 1982, the annual budget for the program that has been set by Congress has seldom varied up or down by more than about five percent. In January, 2005, however, the Bush Administration proposed to eliminate the CDBG program entirely from the Federal Fiscal Year (FFY) 2006 budget. However, Congress subsequently voted to continue the CDBG Program although the budget for CDBG was reduced by approximately 9 percent.

Despite the demonstrated support from Congress for CDBG, in January, 2006, the Bush Administration proposed a 25 percent cut in the program as part of the FFY 2007 budget. The U. S. House of Representatives voted last June to continue funding for CDBG at about the same level as FFY 2006, while the Senate, as a whole, did not take action on the HUD budget prior to the November elections.

Following the November election, on December 8, 2006 Congress passed a third continuing resolution for FFY 2007 funding which would keep government programs funded until February 15, 2007. In the last few weeks, the Democratic leaders for the 2007 Congress have stated their intent to pass another continuing resolution to fund federal programs at their FFY 2006 levels for the balance of FFY 2007. Under this scenario, the budget for CDBG would remain the same until Congress acts on the budget for FFY 2008.

We will keep you informed of developments as information becomes available to us when Congress returns after the holidays.

3. Proposed Application Deadlines, Allocation of Funds, and Program Changes for the Federal Fiscal Year 2007 and 2008 Programs

The following presents a summary of proposed changes to Montana's CDBG Program Application Guidelines for Economic Development, Housing and Neighborhood Renewal, and Public Facility projects for FFY 2007 and FFY 2008 funds. This summary focuses on the key issues of which local government officials and others need to be aware in order to offer comments. The final guidelines will be distributed to local governments and other interested persons in February, 2007 for Planning Grants, Public Facilities and for Economic Development projects and in June, 2007 for Housing and Neighborhood Renewal projects.

Since the establishment of the Montana CDBG program in 1982, the MDOC has attempted to keep the CDBG program as useful to local governments as possible and consistent with the federal laws and regulations under which it must operate. The proposals presented in this report are an important part of the Department's on-going effort to continually re-evaluate and improve the program. It is important that local officials and others interested in community development review and provide comments on these proposals. By responding to your suggestions, the CDBG program can continue to be responsive to Montana local governments as they seek solutions to their highest priority community development needs.

A. Public Hearing on CDBG Guidelines Scheduled for January 31, 2007

A public hearing on the proposed CDBG Application Guidelines will be held Wednesday, January 31, 2007, at 1:30 P.M. in the Montana Department of Commerce building, 301 South Park, 2nd Floor – Conference Room #226. Written comments may also be submitted to:

Community Development Division
Attention: Gus Byrom
Montana Department of Commerce
P.O. Box 200523 - Helena, Montana 59620-0523
E-mail: gbyrom@mt.gov Phone: (406) 841-2777 Fax: (406) 841-2771

Business Resources Division
Attention: Karyl Tobel
Montana Department of Commerce
P.O. Box 200505
Helena, Montana 59620-0505
E-mail: karylt@mt.gov Phone: (406) 841-2733 Fax: (406) 841-2731

Comments must be received no later than February 7, 2007 in order to be incorporated into the formal hearing record.

B. Proposed Application Deadlines

For several years, HUD and Congress have been placing increasing pressure on all of the states that administer the State CDBG Program to expedite the expenditure of their CDBG funds. In response to Congress' concerns and with HUD's encouragement, the MDOC accelerated the funding cycle for Housing and Public Facilities beginning with the Federal Fiscal Year (FFY) 2002 CDBG program. To accomplish this, the Department conducted grant competitions for FY 2002, 2003, and 2004 funding allocations within a single 24-month period. This acceleration of the grant competitions was a one-time only event. The objective of this "fast forward" action was to establish a long-term annual grant application cycle that would provide for the ranking of both housing and public facility applications in the calendar year prior to the state's actual receipt of the federal fiscal year (FFY) CDBG allocation that would fund those projects. This allows MDOC to fund pre-ranked Public Facility and Housing projects immediately upon receipt of its federal fiscal year allocation of CDBG funds.

As a consequence, CDBG Public Facilities applications for FFY 2008 funds are proposed to be due in May 2007 and the Housing and Neighborhood Renewal competition for FFY 2008 funds will have applications due in November 2007. Within the public facilities and housing categories, communities will be applying for FFY 2008 funds without knowing precisely how much CDBG funding will be available. The award of FFY 2008 funds, as well as the award of FFY 2007 funds, will be contingent on Montana receiving its CDBG grant funds from Congress and HUD.

The tentative application deadlines for the grant competitions to take place in calendar year 2007 will be as follows:

- **Economic Development for FFY 2007 Grants – Open Cycle**
ED Application Guidelines available February 2007
ED Planning Grant Guidelines available May 2007
- **Planning Grant Competition for FFY 2007 Grants – Housing and Public Facilities**
Applications due April 20, 2007
Grant Announcement – June 2007

- **Public Facilities Competition for FFY 2008 Grants**
Applications due May 25, 2007
Grant Announcement - September 2007
- **Housing and Neighborhood Renewal Grant Competition for FFY 2008 Grants**
Applications due November 2, 2007
Grant Announcement - March 2008

C. Proposed Allocation and Distribution of Funds

As described above, Congress has not yet passed a final HUD budget for FFY 2007, including funding for the CDBG program. Whatever final funding level is approved by Congress, the allocation of funds for FFY 2007 CDBG funds will be distributed in a proportionate manner, based upon the funding level received for FFY 2006.

Proposed Distribution of FFY 2007 and FFY 2008 CDBG Funds

FFY 2007 Funds

The following table summarizes the estimated distribution of CDBG funds for the FFY 2007 program, based upon the funding level received for FFY 2006.

<i>Estimated FFY 2007 and FFY 2008 State CDBG Allocation:</i>	<i>\$6,886,683</i>
<i>Less 3% for State program administration and technical assistance (as provided by federal law)</i>	<i><u>\$306,601</u></i>
<i><u>Amount Available for Award to Local Governments</u></i>	<i>\$6,580,082</i>
<i>Less 1/3 Allocation for Economic Development Projects</i>	<i><u>\$2,193,361</u></i>
<i>Total Available for Housing and Neighborhood Renewal and Public Facility Projects</i>	<i>\$4,386,721</i>
<i>Less Planning Grants - Housing and Public Facilities</i>	<i><u>\$ 225,000</u></i>
<i>Sub-Total</i>	<i>\$4,161,721</i>
<i>Allocation for Housing and Neighborhood Renewal Projects (34%)</i>	<i>\$1,414,985</i>
<i>Allocation for Public Facilities Projects (66%)</i>	<i>\$2,746,736</i>

The Department will base the funding allocation for the Housing and Public Facilities categories upon the demand for the two categories for the previous two years. Using a two-year average, this method adjusts for any variability in the demand for CDBG public facilities funding that may be associated with the biennial cycle of the State's legislatively approved infrastructure funding programs: the Department of Natural Resources and Conservation (DNRC) Renewable Resources Grant and Loan Program and MDOC's Treasure State Endowment Program (TSEP).

In this way, the funding reserved for each category can respond to changing relative demand for CDBG Housing and Public Facilities grants over time. Through this method, the amounts allocated between the two categories will change based upon actual past demand; however, the basic method

of distribution remains unchanged. The following chart lists the number of Housing and Public Facilities applications and the total dollars requested for the last two years.

CDBG APPLICATIONS RECEIVED				
FFY 2006 - 2007				
	HOUSING		PUBLIC FACILITIES	
FFY YEAR	# OF APPS	TOTAL \$ REQUESTED	# OF APPS	TOTAL \$ REQUESTED
2006	4	\$1,980,000	11	\$4,749,837
2007	5	\$2,250,000	17	\$6,924,679
Total:	9	\$4,230,000	28	\$11,674,516
% of Total Applications	24%		76%	

FFY 2008 Funds

As a result of the method of distribution described above, the allocations for the Housing and Public Facilities categories for FFY 2008 funds will be established at 24% and 76%, respectively, regardless of the final funding level approved by Congress. Previously, the percentage for Housing was 34% and the percentage for Public Facilities was 66% for FFY 2007 funds.

The following table summarizes the estimated distribution of CDBG funds for the FFY 2008 program, based upon the funding level received for FFY 2006, reflecting the revised allocations for Housing and Neighborhood Renewal projects versus Public Facilities projects that would be in place in FFY 2008.

<i>Estimated FFY 2008 State CDBG Allocation:</i>	<i>\$6,886,683</i>
<i>Less 3% for State program administration and technical assistance (as provided by federal law)</i>	<i><u>\$306,601</u></i>
<i><u>Amount Available for Award to Local Governments</u></i>	<i>\$6,580,082</i>
<i>Less 1/3 Allocation for Economic Development Projects</i>	<i><u>\$2,193,361</u></i>
<i>Total Available for Housing and Neighborhood Renewal and Public Facility Projects</i>	<i>\$4,386,721</i>
<i>Less Planning Grants - Housing and Public Facilities</i>	<i><u>\$ 225,000</u></i>
<i>Sub-Total</i>	<i>\$4,161,721</i>
<i>Allocation for Housing and Neighborhood Renewal Projects (24%)</i>	<i>\$998,813</i>
<i>Allocation for Public Facilities Projects (76%)</i>	<i>\$3,162,908</i>

D. CDBG Planning and Technical Assistance Activities

Economic Development Program

The Community Development Block Grant – Economic Development Program intends to set aside approximately \$225,000 for economic development planning, capacity building, and technical assistance grants from the FFY 2007 program. The Department intends to use the set-aside for activities similar to those funded in recent years but will establish specific application policies by May

2007. The policies will specify funding priorities, application procedures, and amounts available at that time for each subcategory. Establishing policies in May will provide flexibility to address specific needs identified at the time federal funding becomes available for the CDBG program. Funds not utilized for this category may be used for regular economic development activities. All other aspects of administration of Community Development Block Grant - Economic Development funds will be unchanged from previous years.

Housing and Public Facilities Categories

For FFY 2007, within the Housing and Neighborhood Renewal and Public Facilities categories, the CDBG program proposes to continue to set aside \$225,000 for planning grants to local governments, the same level as last year. The planning grant funds can be used to assist local governments in a wide variety of planning-related activities, including preparation of community growth policies, needs assessments, capital improvements plans, housing studies, and preliminary architectural or engineering plans related to construction of water and wastewater systems or other public facilities.

Increase Benefit to LMI on Planning Grants:

At present, CDBG planning grant proposals within the public facilities and housing categories are evaluated against four criteria with bonus points being considered for first time recipients and/or innovative proposals, as follows:

<u>Ranking Criteria - EXISTING</u>	<u>Maximum Points</u>
1. Relationship to Long-Term Community Planning	100 Points
2. Need for Planning Activity	100 Points
3. Community Efforts and Financial Need	50 Points
4. Benefit to Low and Moderate Income	50 Points
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	SUB-TOTAL POINTS:
	300 Points
5. First Time Recipient and/or Innovative Proposals	Bonus Points:
	<u>50 Points</u>
	TOTAL POINTS:
	350 Points

For the 2007 program, CDBG is proposing to increase the score of the low and moderate income (LMI) ranking criterion to give more weight to LMI benefit, to reflect the principal purpose of the CDBG program, and help spread out ranking scores for applications. Under federal law, the principal purpose and objective of the CDBG Program is to assist low and moderate income households. The proposed change would be as follows:

<u>Ranking Criteria – PROPOSED</u>	<u>Maximum Points</u>
1. Relationship to Long-Term Community Planning	100 Points
2. Need for Planning Activity	100 Points
3. Community Efforts and Financial Need	50 Points
4. Benefit to Low and Moderate Income	change - 100 Points
<hr/>	
	SUB-TOTAL POINTS:
	350 Points
5. First Time Recipient and/or Innovative Proposals	Bonus Points:
	<u>50 Points</u>
	TOTAL POINTS:
	400 Points

E. Short-Term Residential Facilities

Several local governments have requested that short-term residential facilities be eligible to be submitted for funding under the Public Facilities category of the CDBG Program, rather than under the

Housing and Neighborhood Renewal category. At present, residential facilities, including both short-term and long-term facilities, must be submitted under the Housing and Neighborhood Renewal category. Short-term residential facilities include homeless shelters and shelters for abused youth and shelters for victims of domestic violence.

These local governments argue that short-term residential facilities have specific requirements and provide unique services that differentiate them from other housing projects, such as those providing homeowner rehabilitation, multi-family construction, or first-time homebuyer assistance. The clientele served by short-term residential facilities must meet very specific criteria and follow specific treatment programs. These facilities can be a difficult fit under the ranking criteria used for housing projects. These local governments also state that, in these cases, the activity being provided is really a public service function that includes provision of over-night housing and counseling services. They argue that because the project focus is on the provision of a public service (as opposed to long-term, permanent housing), it would be more appropriate to rank these types of facilities under the Public Facility category.

F. Greater Distribution and Spread Among Scores

To provide for a greater distribution of scores among applications, it is proposed that the maximum possible total score for both public facilities and housing projects be increased from 800 to 1,125 points, with a proportional increase in each of the separate ranking criterion. The overall relative weighting between separate application ranking criteria would change by roughly proportional amounts.

Public Facilities Category Ranking Criteria-

Public Facilities applications would be evaluated according to the following criteria and may be assigned up to a maximum of 1,125 points, as follows:

	<u>Existing</u>	<u>Proposed</u>
1. Community Planning and Citizen Participation	125 Points	175
2. Need for Project	125 Points	175
3. Project Concept and Technical Design	100 Points	150
4. Community Efforts	75 Points	100
5. Need for Financial Assistance	150 Points	200
6. Benefit to Low and Moderate Income	100 Points	150
7. Implementation and Management	<u>125 Points</u>	<u>175</u>
TOTAL:	800 Points	1,125 Points

Regarding ranking criterion no. 5, Need for Financial Assistance, applications would still be evaluated based upon analysis of two indicators:

- 1) Economic Condition of Households, representing 40 percent of total points possible, and
- 2) Financial Analysis, representing 60 percent of total points possible.

However, there would be a change in how the points for Economic Condition of Households are calculated. Previously, this score has been assigned based on one of five scoring levels. In the future, the score for Economic Condition of Households for each application would be computer-

generated and provide an absolute numerical score, resulting in a greater variation and spread among ranking scores.

In regards to ranking criterion no. 6, Benefit to Low and Moderate Income, applications will be assigned three points for each documented whole percentage of benefit to low and moderate income (LMI) persons over 50 percent, rather than two points, resulting in a greater variation and spread among ranking scores.

Housing and Neighborhood Renewal Category Ranking Criteria-

Housing and Neighborhood Renewal applications would be evaluated according to the following criteria and may be assigned up to a maximum of 1,050 points, as follows:

	<u>Existing</u>	<u>Proposed</u>
1. Community Planning and Citizen Participation	150 Points	200
2. Need	150 Points	200
3. Project Strategy and Community Efforts	200 Points	250
4. Benefit to Low and Moderate Income	150 Points	200
5. Implementation and Management	<u>150 Points</u>	<u>200</u>
TOTAL:	800 Points	1,050 Points

In regards to ranking criterion no. 4, Benefit to Low and Moderate Income, applicants will be assigned four points for each documented whole percentage of benefit to low and moderate income (LMI) persons over 50 percent, rather than three points.

G. Define Short-Term and Long-Term Community Efforts

At present, community efforts are considered as part of criterion 4, Community Efforts, under the Public Facility category and also as part of criterion 3, Project Strategy and Community Efforts, in the Housing and Neighborhood Renewal funding category. The criteria in both of these categories evaluates the thoroughness of the applicant's past efforts to address local community development needs with local resources, including non-financial community efforts, as well as the applicant's commitment to long-range planning. This is often demonstrated by the adoption of a growth policy and/or the adoption of a capital improvements program (CIP), in the case of public facilities projects, and the adoption of a growth policy and housing plan, in the case of housing and neighborhood renewal projects.

The CDBG program proposes to clarify the difference between long-term and short-term community efforts. Beginning with the FFY 2008 program for public facilities and housing projects, short-term community efforts will be generally viewed as those that have occurred recently. Long-term community efforts will be generally defined as those that have been on-going, continuing, or regularly updated and kept relevant, as appropriate (for example, a community that has had a capital improvements program for several years and regularly uses it in conjunction with their annual budget process and updates it yearly). In the Public Facilities category, this would apply to the adoption and regular maintenance and documented use of growth policies and/or capital improvement programs. In the Housing and Neighborhood Renewal category, this would apply to the adoption and use of growth policies and/or housing-related studies, plans, or similar related activities.

H. Re-Application in the Case of Partial Funding

Under current guidelines, in the case of local governments recently awarded funds, local governments have to draw at least 75% of CDBG funds awarded in the current year to be eligible to re-apply for the next grant competition. Recently, because of funding cuts to CDBG, the program was not able to fully fund some of the higher scoring FFY 2007 public facilities projects submitted. For the FFY 2008 public facilities and housing competitions, it is proposed that applicants would be able to apply one time for the remaining CDBG grant balance in the next successive grant application cycle. The total funds awarded could not exceed the original grant request. If successful, funding for the project would then come from two successive CDBG fiscal years. If the applicant is unsuccessful, the partially funded grant recipient would have to meet the standard project start-up requirements and proceed with the project within six months of the announcement of the grant competition results.

I. Housing Assistance Ceiling - Limitation on CDBG Funds Per LMI Household or Individual

In view of the extent of Montana's housing needs and the limited CDBG funds available, MDOC encourages applicants to limit the proposed ceiling on CDBG grant assistance per benefited LMI household or individual for their proposed projects to reasonable and appropriate levels. Within the housing category, at present, the CDBG guidelines state, "MDOC discourages grant assistance (non-loan) over \$25,000 per low and moderate income household or individual unless a low or moderate income family or individual clearly lacks sufficient financial capacity to repay a loan and without additional grant assistance, would be denied decent, safe and sanitary housing conditions. Applicants contemplating grant assistance that would exceed \$25,000 per LMI household should contact the CDBG Program to discuss the circumstances involved. The \$25,000 per household limitation would not apply to those circumstances where funds are loaned to families which would later be recaptured at the time of sale and then made available for loans to assist other LMI households."

For FFY 2008 Housing and Neighborhood Renewal applications, the CDBG program is proposing to raise the grant assistance ceiling per LMI household or individual to \$30,000 in recognition of increased construction costs and rapidly rising housing prices.

J. Certified Regional Development Corporation Resolution of Support

Public Facilities or Housing and Neighborhood Renewal Applications

In the future, to encourage greater cooperation between Montana local governments and the eleven Certified Regional Development Corporations (CRDC's) across the state, local governments applying for assistance within either the Public Facilities or Housing categories will be encouraged to obtain a resolution of support from the appropriate Certified Regional Development Corporation (CRDC), where applicable. See attached Table 1 (following).

Economic Development Applications

The Department encourages greater communication and coordinated efforts between local governments and their Certified Regional Development Corporations (CRDC's). MDOC proposes that every application for CDBG Economic Development funding, including planning grant applications, must contain a copy of a resolution passed by a CRDC's Board of Directors, endorsing the CDBG Economic Development proposal. If applications do not include this CRDC document, applicants must provide an explanation why one is not included. Preference for funding will be given to applications submitted from CRDC areas that include a supporting resolution.

For more information on CRDC's please see the following website and chart contained in TABLE 1. For more information on the CRDC program, please contact Quinn Ness, Section Supervisor, at (406) 841-2758, or by email at quiness@mt.gov.

TABLE 1

Certified Regional Development Corporations Program - Montana

Map: http://businessresources.mt.gov/BRD_CRDC_Map.asp

Corporations	Addresses & Phone #'s
Bear Paw Development Corp.	48 Second Avenue, Ste 202 - Havre, MT 59501 - (406) 265-9226
Beartooth RC&D	604 West Front Street - Joliet, MT 59041 - (406) 962-3914
Eastern Plains RC&D	2745 West Holly - Sidney, MT 59270 - (406) 433-2103
Gateway Economic Development Corp.	225 Cruse Avenue - Helena, MT 59601 - (406) 447-1510
Great Northern Development Corp	233 Cascade Street - Wolf Point, MT 59201 - (406) 653-2590
Headwaters RC&D	305 W. Mercury, Ste. 211 - Butte, MT 59701 - (406) 782-7333
Lake County Community Development	407 Main St. S.W. - Ronan, MT 59864 - (406) 676-5901
Missoula Area Economic Development Corp.	1121 East Broadway, Suite 100 – Missoula, MT 59802 – (406) 728-3337
Northern Rocky Mountain RC&D	502 S. 19th Avenue, Ste 105 - Bozeman, MT 59718 - (406) 582-5700
Snowy Mountain Development Corp.	613 North East Main - Lewistown, MT 59457 - (406) 538-2591
Southeastern MT Development Corp	6200 Main Street - Colstrip, MT 59323 - (406) 748-2990
Sweetgrass Development	4 North Central - PO Box 1329 - Cut Bank, MT 59427 - (406) 873-2828

4. Dates and Locations for Public Facilities Workshops for Spring, 2007

W₂ASACT Workshops –

In cooperation with the Water, Wastewater, and Solid Waste Agencies Coordinating Team (W₂ASACT), the CDBG program will be co-hosting three workshops designed to familiarize local governments with federal and state low-interest loan and grant programs that are available to assist local governments and water and sewer districts in financing water, sewer, and other types of public facility projects. Tentative dates and locations in 2007 are as follows:

Wed., Feb. 21st – W₂ASACT Workshop - Heritage Inn - Great Falls - 8:30 a.m. to 4 p.m.

Wed., March 7th - W₂ASACT Workshop - Holiday Inn/Parkside Missoula - 8:30 a.m. to 4 p.m.

Thurs., March 15th - W₂ASACT Workshop - Hampton Inn - Billings - 8:30 a.m. to 4 p.m.

CDBG One-Half Day Workshops -

In addition, the CDBG Program will be hosting the following four one-half day workshops focusing on specific details of CDBG requirements related to the CDBG Public Facilities application deadline of May 25, 2007.

Tues., Feb. 20th - CDBG 1/2 Day Workshop - Heritage Inn - Great Falls – 1 p.m. to 5 p.m.

- To be held in Great Falls in the afternoon before the February 21 full-day W₂ASACT workshop.

Thurs., March 8th - CDBG 1/2 Day Workshop - Holiday Inn/Parkside - Missoula - 8:30 a.m. to noon

- To be held in Missoula on the morning after the March 7 full-day W₂ASACT workshop.

Wed., March 14th - CDBG 1/2 Day Workshop - Glendive Inn – Glendive - 8:30 a.m. to noon

Note – At this workshop, the other principal funding programs available to assist communities with water and wastewater projects will be briefly covered as well by CDBG staff.

Fri., March 16th - CDBG 1/2 Day Workshop - Hampton Inn - Billings - 8:30 a.m. to noon

- To be held in Billings on the morning after the March 15 full-day W₂ASACT workshop.

Local government officials and all those interested in learning how to plan for and finance local public facilities are encouraged to attend these sessions. The four one-half day CDBG workshops will cover possible funding for senior centers, Head Start facilities, rural hospitals, and other types of public facilities, in addition to assistance for water and wastewater projects.